



**West Hants**  
something inspiring awaits

**WEST HANTS REGIONAL MUNICIPALITY  
Audit Committee – Draft Meeting Minutes  
October 16, 2023, 6:00 p.m.  
Council Chambers, 76 Morison Drive, via Zoom & Facebook Livestreamed**

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**Present :**

Abraham Zebian	Mayor / Committee Chair
Jeff Hartt	Councillor, District 4
Laurie Murley	Councillor, District 10
Meagan Halverson	Resident Member
Carlee Rochon	Director of Financial Services
Diana Gibson	Manager of Accounting and Financial Reporting
Mark Phillips	Chief Administrative Officer (CAO)
Carmen Dewar-Miller	Admin Assistant, Financial Services
Andy Forse	Auditor, Kent & Duffett

1. Call to Order – Mayor Zebian called the meeting to order at 6:00 p.m.
2. Declaration(s) of Conflict of Interest – No declarations.
3. Announcements – Mayor Zebian acknowledged that the West Hants Regional Municipality is in Mi'kma'ki, the ancestral and unceded territory of the Mi'kmaq People. These lands are governed by the Treaties of Peace and Friendship, signed in 1726.
4. Approval of Agenda, including additions or deletions  
**Moved by Councillor Murley and Resident Member Halverson that the agenda be approved.**  
**Motion Carried.**
5. Approval of May 31, 2023 Minutes, including additions or deletions  
**Moved by Councillor Murley and Resident Member Halverson that the May 31, 2023 Minutes be approved.**  
**Motion Carried.**
6. New Business
  - a) Presentation of Financial Statements – Andy Forse, Kent & Duffett  
Auditor Forse is here to wrap up another successful audit season. Kent & Duffett have been doing this for seven years now. He thanks staff for all their hard work

– they were very helpful to the auditors, starting last February with audit planning. Staff have provided timely, accurate and complete information.

Auditor Forse explained what an audit is and what it isn't. Auditors do not look at every single transaction. The financial statements are audited within the concept of materiality. Materiality is the magnitude of error or omission that would change someone's opinion of your financial results. An example: if there was a million dollars in your bank account that was not disclosed, would a reasonable person care about that and would their opinion change? Yes. Same thing if there was a million dollars of debt that was not recorded on your books – this would change that opinion. If there was a pencil missing from the supply count, this would not be significant enough to change an opinion.

Within that concept of reasonableness, it's the auditors' job to assess the fairness of the financial statements. The level of testing is significant. If the auditors were to compile the files and papers involved in the testing process, there would be a stack up to the ceiling. Auditor Forse likens it to "Law and Order". The auditors take an unbiased viewpoint and gather evidence for thorough testing and corroboration. Based on this evidence they form their conclusion and offer one of three types of opinion:

- Adverse
  - They feel these statements are not presented fairly
- Qualified
  - "Except for" or "but" related to an isolated area, they do think these statements are presented fairly. A common example would be the cash receipts for a registered charity.
- Unqualified
  - They have no qualifications over the fairness of your financial statements (not that the auditors themselves are not qualified)

Once again this year the auditors are offering an unqualified opinion of West Hants' financial statements. They feel that there are no errors or omissions in the statements that would cause a reasonable person's opinion to change. Auditor Forse does not want to go too far into adjustments but last year there were in excess of 30-35. This year, adjustments were under 10. There has been significant improvement, in part due to human resources and having Director Rochon back to assist. From the process side of things, not much has changed. Again, a huge thank-you to staff.

There are a few new standards this year that Auditor Forse would like to mention. The first two are trivial to this discussion (Foreign Currency Translation and Portfolio Investments). Neither of these have a significant impact on the Municipality's financial statements.

The one new standard that has had impact is the Asset Retirement Obligations (ARO) policy change. It was previously buried in another policy, brought to the forefront, then deferred for three years due to COVID. As with most new policies, Auditor Forse would not be surprised if there have been clarifications communicated by the Province. Many municipalities were having a difficult time knowing where to present things. He agrees with West Hants' treatment of the ARO. Manager Gibson was tasked early on to gather the information. The thoroughness of her analysis was fantastic. She did identify several cases of asset retirement obligations. This means that the Municipality has environmental issues that need to be remedied in the future. The most common is a landfill closure. Asbestos in buildings and less significantly, wells, are also examples. With any new policy, all kinds of questions come up – there is asbestos in asphalt, for example. Auditor Forse is comfortable that it's been treated correctly. Auditors did not want Finance staff to be exclusively handling the ARO (not their area of expertise), and Manager Gibson thoroughly consulted with all relevant departments (Public Works, other experts). Related areas of remediation were identified and properly recorded. There was extra testing on this as it was new and the auditors are comfortable with the results.

Auditor Forse noted that the cost for ARO was added to the tangible capital assets as a debit. The credit side is shown separately as a liability for future remediation costs.

It is not difficult to get a related cost, but it is expensive (professional consulting fees). There is no consulting report required at this time which saves tens of thousands of dollars. For this year, according to how the standard is written, the auditors are comfortable with how it's been treated and believe it to be represented and recorded fairly in the financial statements. Most municipalities were not as independent as WHRM. Hats off to the Financial staff.

Auditor Forse then reviewed highlights from the financial statements, beginning on page three, Statement of Financial Activities. There is an annual surplus showing of \$7.2 million. That is approximately double what it was a year ago and there are a few reasons:

- Under Conditional Transfers from Federal and Provincial Governments and Agencies, a \$3.4 million dollar consolidation grant was received this year. This line item was budgeted as \$147,000. The actual last year was \$202,000.
- Under Gas Tax Transfers, all of the funds when initially received go into a reserve fund. As money is spent, it would come into the statement of financial activities. This year, clearly there was more spent than the prior year, so there were some bigger projects that totalled about \$2.3 million. That money was received prior to sitting in reserves and was taken out of reserves into current year operations. The money that was received this

year and remains unspent does show as deferred revenue on page four. It sits in the Municipality's reserve accounts in the general ledger.

Another point that Auditor Forse likes to make every year for residents is related to the annual budgeted surplus (can be misleading), which is showing as \$1.7 million. That figure is an accounting budget line item. It does not factor in things like debt repayments, amortization and the general capital fund. He does not want anyone to look at surplus / budgeted surplus and get the wrong impression that tax rates are too high or that there is a surplus built in. Representative of an accounting figure, not a cash figure.

Other positives include the following:

- The net assets line (page four of the financial statements) is a positive number this year (\$2 million). Last year it was negative (-\$784,000) - a net debt position. Net debt is not unusual, many municipal units have net debt. To have a positive net assets number is excellent, a tremendous financial position to be in.
- Reserve positions are quite healthy and strong.
- The Municipality's long-term debt number is very low. It can be represented through the following two ratios:
  - Long-term debt as a percentage of revenues is 31% which is a tremendous number
  - Principal repayments as a percentage of revenue is 3.6%, which is a very low number when thinking about general finance terms

The financial picture for the Municipality is very vibrant, very healthy, great to see. As an auditor, they do have to assess the financial health of any organization they audit. They see nothing along the lines of intentional misstatements. On the concept of misstatements, there are two types: intentional (fraud or theft) and unintentional.

On the general operating side there was a surplus this year of \$1.2 million. This is a nice, healthy number. A little bit lower than last year but still good.

The Windsor Water Utility was flagged as showing a deficit. Nothing to be alarmed about but Auditor Forse does advise keeping an eye on this if it continues to trend. Could be an indication that it is time for a rate review and/or consolidation with the West Hants Water Utility.

Auditor Forse then references last year's Management Letter which was significant as the auditors identified a high number of adjustments required during the audit process. Can be attributed to extenuating circumstances such as staff turnover, new staff and an unprecedented consolidation process (entirely new unit created). He would like to point out that this year the volume of

corrections was notably less, much more to a normal level. Auditors have no illusions that there won't be adjustments but once it gets above 10 – 15, it starts to get more significant. As previously stated, the adjustments were under ten this year which was lovely to report. Immediate action was taken by management and the results were evident.

The auditors had one finding this year which was discussed with management last Friday. For context, there are three categories of Management Letter points:

- Material issues (stop what you're doing and make a resolution to this now, and auditors will be watching closely)
- Significant deficiencies (auditors want an immediate action plan but not quite as severe as a material problem)
- Items for possible improvement (no need for monitoring by auditors going forward, more trivial in nature, no great impact on financial results)

The auditors did find an item for possible improvement. During the creation of a new set of books with Windsor and West Hants combined, there were a lot of balances brought in from each municipal unit. The size or the value of these balances are quite small, most less than \$10,000. There were a significant number, more than three or four (but much less than 100) that hadn't changed in value over the last couple of years. Likely they are just carried forward in error and need to be written off or otherwise adjusted. Some are positive numbers, some negative. In the end a very, very small amount of what they think could be required to be adjusted in the future. A recommended best practice would be to have a process in place to examine all balances to see what has to be adjusted. Could be conducted monthly, quarterly or even every six months. Implement a good review process. Not a concerning item for residents or Council.

In terms of overall results, they were consistent with last year with the exception of the two items the auditors felt worthy of note on the revenue side (\$3 million dollar grant and the gas tax from the reserve fund). Expenditures were quite consistent. Costs were controlled better than expected as related to inflation, close to 5% increase as opposed to 7% - 9% inflation.

There was a question regarding the number associated with materiality.

Auditor Forse advised that the number was \$180,000. They do quantify materiality (assign a number to it), but the concept is more of a qualitative factor. What level of misstatement would change someone's opinion. It's an aggregate (formed or calculated by the combination of many separate units or items) number.

There was a request for more clarification surrounding Auditor Forse's comments on the Windsor Water Utility and deficit showing. Has Auditor Forse

seen other municipalities cope with similar decisions surrounding rate reviews and consolidation?

Auditor Forse has not seen as much with the consolidation of multiple utilities, more so with rate reviews. For at least the last five to ten years as an auditor it is a very common point he can make. You can continue to fund water utility deficits with the general operating fund but you will eventually see a large due/to/from balance that could occur due from the water utility. This really means that all taxpayers end up funding the water utility. Importantly, it is one of the common areas where Council may be missing information. The water utility should be a stand-alone operation (not continuously underfunded). There may be efficiencies in consolidating utilities. The prior year showed a small surplus, so currently a minor problem, but with the ability to grow to a point where the tax rate is helping fund the water utility.

Mayor Zebian noted that this happened for the former District of West Hants in 2016. At that time the decision was made to consolidate utilities.

There were no further questions.

Auditor Forse wanted to mention the Provincial Financial Indicator Report (FIR). The last FIR showed some indicators coming back as red or yellow, mainly due to a lack of historical data (three years' worth) for the new region. As the new unit moves forward there will be history to build upon. Auditor Forse suspects the Municipality will have a very strong performance reported in the next FIR.

Director Rochon unofficially advised that the draft report for the 2022-2023 FIR is looking very positive. Staff are working hard to achieve green indicators.

Mayor Zebian mentioned the importance provincially of comparing rural to rural, town to town and region to region. He thanked Auditor Forse for the work done by the auditors.

Director Rochon requested a motion from the committee to recommend that Council approve the financial statements as presented.

**Moved by Councillor Murley and Resident Member Halverson that the Audit Committee recommend that Council approve the draft Consolidated Financial Statements.**

**Motion carried.**

- b) Operating Budget Information Report – Carlee Rochon, Director of Financial Services

Director Rochon reviewed this report, which was also presented to Committee of the Whole on October 10, 2023. The report outlined formula errors discovered by staff that affected the overall budget summary page for the current fiscal

year. A few items were not carried over into the budget summary although they were presented as line items within the 2023-2024 budget. These missing items were not included in the calculation of the tax rate and were necessary to maintain the intended level of services planned for this fiscal year.

This discovery was made by staff in mid-September. Staff acted quickly to summarize these missing items. The variance from budget to what was intended to be included in budget was \$704,406. This was brought forward to Council right away. Staff also identified areas where the shortfall could be mitigated, including capital projects not going through this fiscal year due to other reasons, giving capacity to reduce the capital reserves contribution. These projects also freed up capacity from operating reserves. Additionally explaining the operating reserves are very healthy, above the 10% requirement of the policy, and have capacity to mitigate any shortfall at year end.

Director Rochon explained that these mitigating efforts will only be implemented at year end, if required. If the Municipality ends the year in a surplus, no mitigation is required. If the Municipality has a deficit, there is a plan in place, pending a motion of Council.

It was asked as a point of clarification if Council had seen this report yet.

It was confirmed by Director Rochon that Council had the opportunity to review this report on October 10, 2023.

c) Financial Update to June 30, 2023 – Director Rochon

Director Rochon presented this update, covering the first quarter of the current fiscal year. Projections will change as the year progresses. If we were accumulating our costs and revenues at a rate that would match this quarter, we would see about 25%. There are seasonal factors that come into play (tax bills, snow clearing, pool).

Projecting that we are at about 0.4% lower than budgeted revenue. Expenses are projecting at about 2.2% higher than budgeted. The overall projected deficit based on the variance analysis for the general fund is \$799,022. This can be attributed to what was just discussed in the operating report.

Revenues projecting a little bit lower (Community Development, facility rentals, sewer revenue). Miscellaneous revenue was higher and there was higher return on investment. Community Development revenue has come in a little lower than budget. Able to mitigate deficits through the Safe Restart Fund up to a maximum of \$83,000. Sewer revenue projecting a little lower, does not capture summer billings. Director Rochon highlights the Deed Transfer Tax, a constantly reviewed

item from last year's updates. Right now, we are at 11.7% of the budgeted amount for Deed Transfer Tax. This item will be monitored over the next two quarters to see if we need to make any adjustments.

Municipal expenditures that are projecting higher right now include Protective and General Government and Environmental Health Services. These can be attributed to the previous operating report presented. We do have some additions to the RCMP line item in the amount of \$236,000. That is the quarterly provincial billing. Mandatory Education Contributions and Regional Library Contributions are both trending a bit higher. Netted together, those amount to \$34,850. The overall projected deficit is \$799,022. To note, the July projected deficit is already seeing improvement by around \$28,000.

A question was asked regarding the Deed Transfer Tax - what is the actual number that we are below last year?

We are at about 11.7% of the annual budgeted amount. Comparing June 30 this year to June 30 last year, we are about \$100,000 less. Still projecting to be on budget but we will be collecting less deed transfer than previous years. Last year was \$2.8 Million. This year Council was conservative, budgeting \$2 million. Projecting that we are on track but we will continue to monitor. We have not yet captured the bulk of the sale months (Jul/Aug/Sep).

Overall, we are in a good situation. Business as usual with monitoring. Only mitigating efforts if required. Fortunate the last few years to not have a deficit. Hopefully the same success this year.

7. In Camera – No In Camera session was required.
8. Next Meeting Date / Adjournment – January 2024

Mayor Zebian asked for a motion to adjourn the meeting.

**Moved by Councillors Murley and Hartt that the meeting be adjourned.**

**Motion Carried.**

*The meeting adjourned at 6:47 p.m.*

X

Committee Chair